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The return of the mid-market

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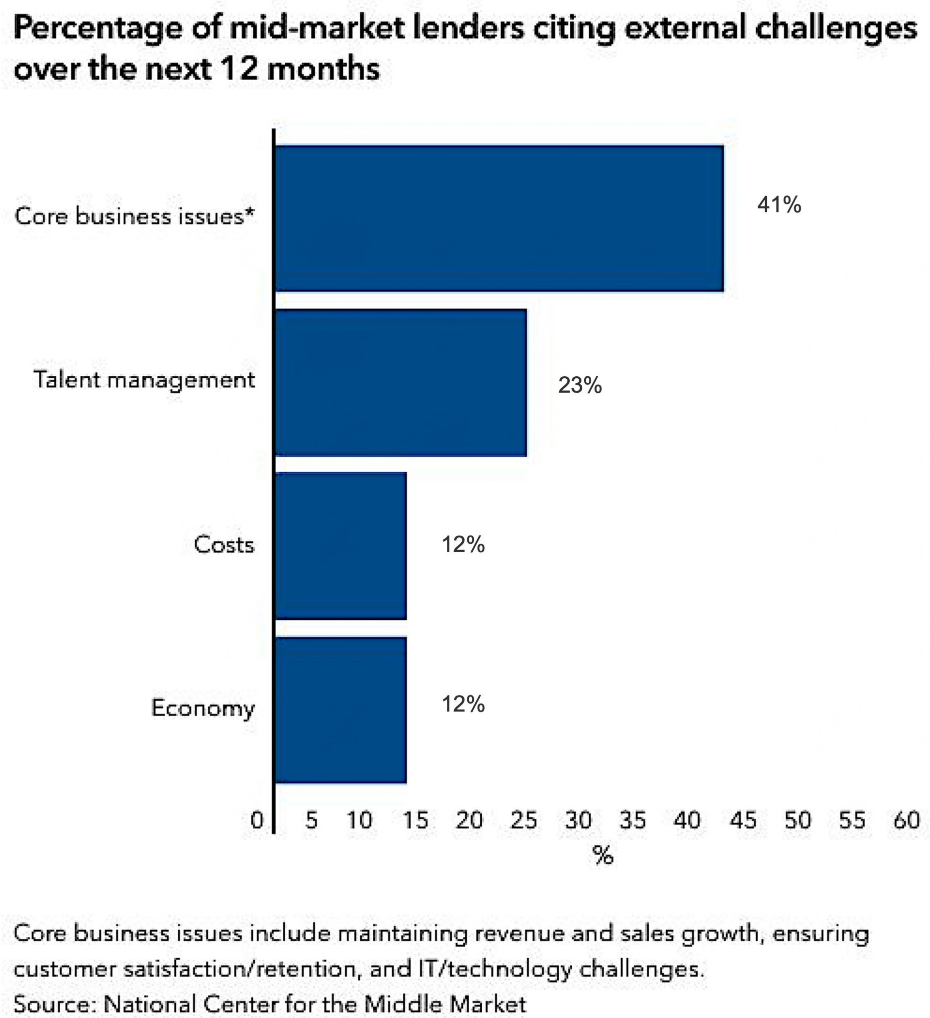

With the focus having been on larger deals last year, 2024 has seen more typical private debt activity make a comeback.

After a rocky two years, mid-market M&A activity looks set to finally rebound and lenders are reporting a bullish first half of the year. With interest rates hopefully on the way down, deal volumes picking up, syndicated loan volumes rising and a wall of dry powder waiting to be deployed, the deal pipeline looks likely to warm up.

Permira Credit's latest market update, published at the start of Q2 in partnership with Capital Economics, argues 2024 will be the year of the mid-market lender. "If the story of 2023 was one of direct lending groups moving up the size spectrum to finance larger companies, we believe 2024 will see a return to the mid-market as activity starts to normalise at all size levels," it notes. The firm reports that a swathe of companies with EBITDA of €20 million-€50 million are seeking financing.

It is an experience shared by Randy Schwimmer, vice-chairman and co-head of senior lending at Churchill Asset Management and publisher of the *Lead Left*: "We are seeing a continuing flow of deals from our active private equity sponsor clients this year, particularly in attractive growth sectors and from the perspective of building platforms through acquisitions. Q4 was our second most active quarter ever in terms of financing activity and 2023 overall effectively equalled our all-time record. So far, the first two quarters of this year are ahead of last year's pace."

Competition has always been fierce in mid-market lending, though, and at a time of limited deal flow it is even more intense. High-quality assets with double-digit growth, strong recurring revenues, high margins and dominant positions in resilient sectors are in everyone's sights.

Lenders are tapping new sectors and working hard to leverage sponsor relationships to capture opportunities, as well as exploring growth areas like NAV lending, credit secondaries, asset-based lending and junior capital as they seek to stand out. Attracting LP dollars is tough in a fundraising market constrained by uncertainty and a lack of distributions, driving innovation in differentiated strategies targeting areas such as the lower mid-market, Asian direct lending and impact credit.

As mid-market activity hots up, lenders will be doing all they can to get an edge.